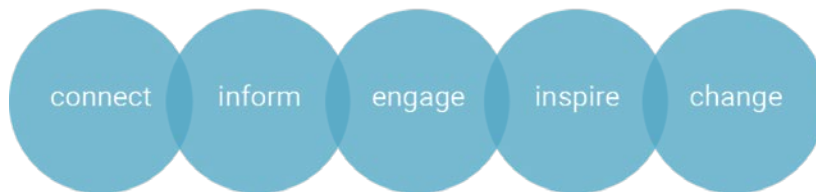


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RSA

Half Year Results Presentation
4th August 2016

RSA

Stephen Hester, Chief Executive Officer

Scott Egan, Chief Financial Officer

QUESTIONS FROM

Dhruv Gahlaut, HSBC

Thomas Seidl, Bernstein

Andy Hughes, Macquarie

Oliver Steel, Deutsche Bank

James Shuck, UBS

Andrew Crean, Autonomous Research

Olivia Brindle, Bank of America

Nadine Van Der Meulen, Morgan Stanley



Presentation

Stephen Hester, Chief Executive Officer

Welcome everyone, thank you for joining us for our Half Year Results presentation. Standard format, I'll start and go through what we've been up to, Scott will add the numbers to it and then we'll move to Q&A.

As ever I'd like to welcome my colleagues here, in particular Martin Scicluna our Chairman, who is sitting here at the front, and they'll of course be available to help out either with telling you the truth after we've finished speaking, or helpful interventions for questions that we can't answer. So we'll crack straight on into it.

So I suppose the four points that I think we will bring out of our results today are that the turnaround period of RSA is done, I think it was really done at the end of last year and you see the evidence of the final big pieces completing in the first half of this year with our Latin America disposals, so our strategic refocus is done, we're focused on our strongest businesses.

I think we're able to report very strong performance progress, ahead even of our demanding plans, we have an all-time record, half year underwriting profits, despite the luck of underwriting going against us, and we've reached our ROTE target range a year ahead of when we thought we would.

All of this stuff will obviously go on in more detail as we go through the presentation. The total disposal programme is £1.2bn that we've reached. The balance sheet, you'll see again good news in our results today, the top end of our Solvency II range achieved. Sub-debt retirement achieved. Pension scheme risk reduction, helping our pension surplus actually rise during the half, which obviously was not the case for many FTSE companies. And in terms of the performance, many good points that we'll talk about as we go through the presentation.

And again Scott will go over clearly the figures, you know them well. Flat top line, I think that is the world around us and we certainly are not going chase top line in favour of bottom line, although we're doing a lot, as we'll come on to talk about, for customers.

All-time record underwriting, at the headline level up something like 80% in constant currency, but importantly not driven by reserve releases. Our current year underwriting profits are all so at an all-time record for us, as is our combined ratio, every single region is kicking in. And the attritional loss ratio is what's driving it as well as costs.

Costs - we're increasingly confident of beating our increased £350m 2018 target. Our operating profit obviously up nicely. Investment income behaving itself, albeit in the context of the declining trend of interest rates and of course that drives EPS up 29%. And a 43% increase in interim dividend.

We re-present and probably will keep re-presenting the strategy slides because the point we want to get across is although RSA is changing a lot, we're changing a lot according to the blueprint we set out two and a half years ago and we're not changing our blueprint. We know what we're doing and we know why we're doing it, this is the kind of company that we think can succeed and this is the company that we're building, both in terms of what the company should look like in qualitative terms, as you'll see in this slide - the focused, stronger, better slide - the broad balance of business that we have, and will continue to have, both in terms of regions, in terms of channels, in terms of product lines, and broadly the profitability mix that achieving our targets gives rise to. Influenced of course by the fact that Scandinavia is inherently a higher profit market, which is why the insurers there trade at higher PEs as well.

And the essence of all that, clearly in shareholders terms is that we observe that companies with the regional market leadership that we have can often achieve a more intense performance focus than those that are more broadly spread, whether composites, or global giants. And that has, in the case



of others, and we hope ourselves increasingly, been able to produce superior performance and superior PEs. So that's what we hope to get to.

Updating you then on what we've been up to and again the framework hasn't in any way changed, we're executing exactly to the plans and to the philosophy that we set out. As we've said the turnaround phase - principally strategic refocus, capital and balance sheet strengthening done, performance back in the pack. That was done by the end of last year. And we set out in February as you'll recall our shift in emphasis to move the company we hope to best in class position, but we're doing all of the different things that we said we would do.

Our approach continues to be and will continue to be constantly looking outside our company to see in the world around us who is doing things better than us, whether in our industry or elsewhere, and to figure out how we can do that too and therefore continually having in mind the ambition of best in class. And from that we develop operating plans and we try to execute to those operating plans. And in essence they come in five performance categories, stuff we do to make customers happier, stuff we do to be smarter underwriters, things we do to reduce our costs and the enablers that are of course people and technology.

Just some vignettes of progress that we're making, starting with customers. This is hopefully you know a mildly interesting slide. As you know for many, many years - too many years RSA was held back by its largest market, the UK, or more particularly by our performance in our largest market in the UK. And we believe that we're beginning to make decisive changes to that historic track record.

And some of that is driven by, if you like, real underlying stuff that we do with customers. You'll see in here the net promoter score, a Broker net promoter score in our UK Commercial business, which is 60% of our UK business, and the really impressive trends in that since 2012 up to the present. And the reason that we care about that, you'll see from this slide, in terms of people - customers who like us do more business with us. It's as simple as that. And of course right across the company these are the things which we're trying to do which will show through with different pace obviously, but it's fundamentally trying to make our top line - if not growing a lot in the current environment, as high quality and strong as it can be.

And you'll see that across the board the franchise is in good shape, notwithstanding all the work we've done to improve our underwriting margins and to reduce costs. Retention is in good shape; our ambition is to make it better still. And everywhere in the business we have activity going on to improve customer capabilities, improve service standards, make more slick the channels through which we operate, digitise the business and so on and so forth.

And it was a conversation I was having earlier, we are determined that if we grow it should not be because we cut price and take underwriting risk, it should be because we move our capabilities to the point that customers want to deal with us because of our effective capabilities. And we're beginning to see across the business in places where we have dropped in new capabilities nice improvements, either to retention or to new business. But these are things that take longer than if you just cut your price and say I want to write more, which we're not doing. And so you won't see that really driving the top line for a while, but it's happening and it's making our top line already better quality and in turn will improve growth.

Apart from the customer levers, clearly the most important lever we have in shareholder terms is how good our underwriting actions and decisions are and we continue to make really outstanding progress in this area. Again, broadly - portfolio re-underwriting, still some actions ongoing like the roll off of UK Broker Motor, we're taking a bit of an axe to some of our unprofitable schemes, businesses in the UK, and there's other bits and pieces around it, although we're in the tail-end of what I'll call the portfolio changes. The discipline with which our underwriters apply their knowledge to the marketplace is improving.



But right across the Group really big strides now beginning to drop in terms of sophistication of risk models, many of which have been rebuilt, in terms of the agility that our technology allows that risk model to turn into street pricing. And these are the things that lie behind the gains that you'll see in attritional loss ratio, which I think you can see are a) across the board, and b) pretty impressive.

My only cautionary note is that gains in attritional loss ratios are a figment of when actuaries decide to recognise them, so they tend to be really lumpy and you can certainly get weird intra-year movements according to when actuaries recognise something and when they don't. So last year we got a lot of recognition in the second half and not much in the first half. This year we think it will be the other way round, the second half will show weaker growth than the first half. But either way it's coming through and is sustainable in our judgement.

And then costs, we've set out our cost ambitions. We're operating ahead of that, we think we will beat the £350m, we have no intention of changing targets at the half year process, we'll look again as to whether we should change it at the full year. And it's all the stuff we said in February we'd do, we are doing. We've picked out on the right hand slide of this slide one of the - let's say emerging areas that has not been available to insurance companies historically, which is robotics, which clearly the service industries generally across the world are trying to nick from manufacturing industry as a way to make further gains and we believe that we're amongst the leading insurers in piloting and rolling out these things, albeit frankly we've only just started in the last 18 months to do it. And this year we've now got pilots running in every one of our regions with some good hopes of rolling that out further.

In terms of looking at our regional performance, we again reiterate today the mission that we've set ourselves to get to best in place performance. Best in class performance for customers but also for shareholders and of course although there are a rich array of measures that you can use the combined ratio is a simple one of looking at it from a shareholder perspective. And so we do believe that we will try and it is possible to get to better than 85 in Scandinavia, better than 94 in Canada, better than 94 in the UK, all measured in, let's call it a normal year, i.e. without the benefit of tailwinds from reserve releases or large weather. And these are the plans and ambitions we're setting ourselves and I think you'll agree that whatever scepticism was there in February it might be a bit less today, albeit I think it's still right to have some level of scepticism because these are things that our company hasn't achieved before.

I won't go in detail through the regions. In every one of our regions we're doing exactly the same thing, we're pulling exactly the same levers, obviously there are nuances. In every one of our regions the cost programme is advancing, in every one the underwriting is advancing in underlying terms. From time to time there are weird ups and downs, for example in Ontario Motor from time to time you have a rate reduction and so on. But basically we're making progress across all of our three regions towards our plan and you can see that in the financial results.

With that Scott, numbers - thank you.

Financial Review

Scott Egan, Chief Financial Officer

Thanks Stephen and good morning everyone, delighted to be here presenting what I believe are an excellent set of numbers to the marketplace.

I'll start with a quick overview of the numbers before getting into the detail. So our half year results are very strong, driven by our underwriting performance and our continued focus on our self-help performance levers.



A record first half underwriting profit of £174m is up 81% on a constant FX basis on prior year, with an overall combined ratio of 94.7% and 94.3% for our core business. And this comes despite the volatile areas of weather and large losses being around £50m worse than the first half year in 2015.

The operating profit of £312m was up 23%, with underlying PBT up 29%.

Profit after tax was £91m after one off costs associated with the restructuring turnaround. And as a reminder the first half of last year included the benefit of our significant disposal programme.

Finally, our underlying return on tangible equity was 12.8%, inside the target range of 12 to 15% a year early.

I'll now quickly go through some of the other areas in more detail starting with premium. Our core Group net written premium of £3bn was flat at an underlying level, reflecting our continued underwriting discipline in what remain competitive market conditions.

A very brief comment on each of the regions. In Scandinavia, the premiums were down 4% year-on-year. However, excluding the transfer of the Marine portfolio to the UK and the non-repeat of two large multiyear deals from last year the underlying premiums were flat.

In Canada, premiums were down 3%, the portfolio actions of the last two years are now complete. However, conditions remain competitive, particularly in the Commercial Broker channel. But despite this we remain disciplined in our approach to pricing and underwriting.

In UK, our premiums were down 1%, although flat on an underlying basis, excluding the exit of Personal Broker Motor and the transfer in of the Scandinavian Marine business.

Household reductions reflected our decision to exit certain unprofitable schemes and there was good growth in telematics.

Whilst underlying Commercial growth of 2% included good new business performance and price increases in Commercial Motor.

And finally in Ireland, the Irish premiums were up 11%, reflecting strong price increases, particularly in the Motor market.

We are seeing rating discipline continue across the regions and we achieve rate increases at least in line with claims inflation at an aggregate level, despite these competitive market conditions. And customer retention has remained stable at around 80%.

If we turn now to the underwriting result. An excellent improvement in underwriting performance in the first half year. The core Group combined ratio was 2.1 points better at 94.3%, despite the impact of the Alberta wildfires and the UK and European flash floods.

What's particularly pleasing is the quality of our first half year result. The current year attritional loss ratio was around 3 points better year-on-year, with good improvements across all the core regions. This improvement contributed over £90m of additional underwriting profit.

Core Group weather and large losses taken together were 2.7 points, or £77m worse than last year. And as I said they included the Canadian wildfires at £39m and £35m for the UK and European floods.

Core Group prior year reserve releases represented 2.3% of earned premiums, 1.6 points higher than last year.



If I break the current year performance down by region, I'll start with Scandinavia. The combined ratio improved from 98% to 88.5%, but as a reminder the first half of 2015 included some one off reserve strengthening. More importantly the attritional loss ratio was 2 points better at 64.5% and our current year underlying profit, i.e. excluding weather and large losses was 31% higher, or £33m.

In Canada the combined ratio of 94.5% was 2 points worse than last year, but included the impact from the Alberta wildfires, driving the weather ratio around 4 points higher than last year.

The attritional ratio in Canada was particularly strong at 57.1%, although I would caution that this benefited by around 1% due to benign indirect weather in the first half. What we did see was an excellent current year underlying performance, up 26% or £18m.

In the UK, the UK combined ratio demonstrates increased resilience at 94.4%, unchanged from a year ago, but in half one 2016 that includes 3.8% of higher weather and large losses, including the European and flash floods in the UK in June.

Again, the current year underlying profit was up 13%, or £30m, with a good improvement of over 2 points in the attritional loss ratio.

And finally in Ireland we have returned to operating profit, driven by a significant improvement in the combined ratio to 100.7%, from around the 112% last year, with a strong improvement in the attritional loss ratio, helping drive our current year profit of £12m at the half year.

So to summarise current year attritional loss ratios have improved strongly across all regions, really demonstrating a vast improvement in the quality of earnings and this is happening right across our business.

If I turn to costs, our cost reductions remain on course to achieve our 2018 target of greater than £350m. As a reminder at the end of 2015 we have delivered £180m of this and at half year this now stands at around £200m, with a 5% cost reduction delivered year-on-year in the first half.

We're expecting significant delivery of cost reductions in the second half, in particular our transformation programme will continue to deliver further headcount reductions and we'll start to crystallise the run rate benefits of the new WIPRO IT infrastructure deal that we announced at year-end.

We're confident that we'll see the momentum in cost reduction continue during the second half and we still expect to achieve around £250m by the end of this year and our greater than £350m target by 2018.

If I turn to investments, our strategy on investments remains unchanged, that is to protect capital for both the policyholders and our shareholders. This means a portfolio dominated by high quality fixed income, with around 90% of our bonds rated at A or above.

Our first half income was at £187m, with core Group investment income of £159m, down 4% on last year. The average reinvestment rate of 1.5% achieved across the first half reflects the mix of assets that have come up for reinvestment during the period, primarily UK corporate debt, which attracts a slightly higher yield.

Our investment income guidance for the full year is increased from £330m to £350m, driven mainly by the benefits from foreign exchange. The £350m includes around £15m for Latin America, which following its disposal won't repeat next year. Therefore our guidance for 2017 and 2018 is circa £320m and £300m respectively, based on current forward yields and FX.



Unrealised bond gains have increased significantly in the first half to just over £700m, driven by lower bond yields and positive FX. The lower yields and now flatter yield curve mean that we now expect these gains to largely unwind over the next four years.

A very quick word on foreign exchange, given the profit profile of the Group with around 75% of profits generated in non-sterling currencies movements in foreign exchange rates are significant both for earnings and capital. The FX impact on first half year earnings was relatively small, given the timing of the FX moves. But you can see here from the slide that our first half underlying profit before tax would have been 7% higher had the first of August spot rates prevailed throughout the period. Therefore if current exchange rates do prevail there should be similar benefits to come for earnings reported in sterling terms.

Operating profit of £312m is up 23% at constant exchange. Below the operating result the Latin American sales are now completed ahead of schedule and with the numbers coming through in line with the guidance that we gave at full year. As we'll see in the next slide, this disposal has been highly capital accretive.

We took the opportunity in early July to retire some of our tier 2 debt, which will save us around £19m of interest costs on an annualised basis. And in the second half you should expect a one-time pre-tax charge of £39m in relation to this.

Non-recurring charges, mainly comprise restructuring costs and are in line with previous guidance given at full year '15.

Finally, the effective tax rate in the period was 39%, in line with the elevated rate we flagged at year-end and is largely driven by tax on overseas profits and tax costs on the Latin America disposal. The underlying tax rate for the core Group is around 24%.

Our capital position remains very strong; we are at the top end of a 130 to 160% Solvency II target range, with a coverage ratio of 158%, up 15% from the year-end.

Our underlying capital generation, which is equivalent to the profit measure we use in our underlying return on tangible equity and EPS numbers added 12 points.

Restructuring costs and other non-operating items, together with the bond pull-to-par reduced this by 9 points.

As I flagged earlier the completion of our Latin America disposal was capital accretive, adding 12 points as expected.

Market movements added five points, mainly driven by FX movements. Yield movements had a limited impact due to the matching of assets and liabilities, while equities and credit spreads, although volatile during the period closed at similar levels to those at the start of the year.

Overall the impact of the market movements was in line with our stated sensitivities.

And finally pension movements and the interim dividend reduced coverage by 2 points and 3 points respectively.

As I said earlier we've now taken the first steps to capital optimisation. The continued strong performance of the Group has allowed us to recently complete the early retirement of £200m of tier 2 debt, with a coupon of 9.4%. This will give us an annualised interest cost saving of £19m, of which we will see half this year.



More importantly we were able to do this without impacting our Solvency II coverage ratio. We did this by utilising some previously ineligible tier 2 debt, as well as introducing a small amount of tier 3 deferred tax asset into our capital structure.

Our ambition is to continue to optimise capital and we will look to take further opportunities for early debt retirement, as well as exploring options for our UK legacy portfolio.

And finally our outlook - our focused and disciplined approach has delivered excellent first half year results across pretty much all dimensions of our business. We will continue to prioritise underwriting discipline over growth in the near term, drive further cost reductions, and as I've just said take any opportunities to optimise our capital structure. I believe we are building a track record of delivery and this gives us increased confidence as we look into the second half of 2016 and into 2017.

With that I will hand back to Stephen.

Conclusion

Stephen Hester, Chief Executive Officer

Thank you very much Scott. So as you can see obviously the numbers are very, very strong, very unusual rates of increase for insurance companies. I hope we've shown you that actually the quality of the numbers is perhaps even stronger than the headline numbers themselves. And that certainly gives us significant confidence that the business is responding to the medicine that we're administering collectively and that the goal of best in class performance is becoming ever more possible. And we believe that you'll therefore see these performance gains continue into the future and indeed strengthen as our plans suggest, with the additional tailwind of the foreign exchange, which looks set to allow us extra gains.

So I think with that I'll stop. We all know the external environment is going to be tough and slow and therefore our programme is very much oriented to self-help. But the self-help seems to be having an impact. We'd welcome any questions, thank you.

If you could give your name and company, as this is being webcast, so for the recording it's all there.

Questions and Answers

Dhruv Gahlaut, HSBC

A couple of questions. Firstly, given the Solvency II ratio is now pretty much at the top end and restructuring is coming to an end, do you think there is more change, or likelihood for a capital return to happen before 2018? That's one.

Secondly, if on the legacy portfolio you mentioned you're looking at opportunities, do you think currently, given where the market is, as in there is an appetite where you could have an economically viable solution for yourself as well as the buyer?

And thirdly, on the investment portfolio it seems the cash has gone up, should we expect any investment portfolio changes at this point?

Stephen Hester, Chief Executive Officer

I'll take the first two and ask Scott to deal with the third. The first two are sort of linked, at the moment - you're right, our capital position we're happy with. But at the moment we think that the best



thing that we can do with surplus capital, whether surplus capital generated from profits, or surplus capital generated from any other transaction like legacy is to retire debt. Partly, because it's very high coupon so that helps our earnings a lot, and partly because it improves the quality of our capital and therefore makes the resilience that's inherent in our capital much greater. And therefore to the extent that we have surpluses you should expect us to channel it there over the next 12 months.

I continue to believe that by the 2018 timeframe we will have done everything that we can do in that area and we'll be in a position to have surplus capital that could allow us dividend options beyond our stated dividend policy. But you should expect us in the near term to apply it to debt retirement.

Scott do you want to take the investment one?

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Scott Egan, Chief Financial Officer

Yes, on the investment side I think the simple answer is no, it's just timing of receipts coming in, etc. There is - as I said in my presentation there is no change to our investment strategy, I think it's very clear, it's high quality fixed income and it's just timing from receipts, particularly of disposals, etc.

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Stephen Hester, Chief Executive Officer

Just to be a little clearer by the way on legacy, we have not hitherto formally explored legacy. We will have a bigger test in the second half of what the market would pay us. We think that that would manifest itself as an accounting loss and a capital gain, a bit like Latin America. But we don't know whether the balance of that would be an attractive deal for shareholders. If it is, we obviously would pursue it and apply the proceeds in the way that I described. But I think it's premature for us to be able to know that. We do expect to know the answer one way or another by the year-end.

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Thomas Seidl, Bernstein

Thank you, first question - growth is just flat again, my first question hence is with this level of growth - I couldn't hear your plans, can you achieve the 40 and 50 P/E, EPS target? So is margin enough to get you to the ambition you stated in February or do you not need, let's say, some decent growth to kick in now?

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Stephen Hester, Chief Executive Officer

I think that you should be raising your EPS targets considerably, not falling them.

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Thomas Seidl, Bernstein

But can you answer the question, so do you have growth in your plans?

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Stephen Hester, Chief Executive Officer

The overwhelming driver of the strong EPS progress we expect to make is profitability improvement. growth, first of all it feeds through with a year's lag, so what we write this year is net earned net premium year, so there is always a year's lag in it. And secondly, if you like the only profit impact of growth comes through the extent to which you're leveraging your expense base, whereas the vast amount of the P&L is captured if you reduce your expenses across the whole board or if you improve your underwriting margins.



And so we expect our profitability to continue to improve, we expect our earnings per share to improve as a result of that and we expect a significant additional boost, something like 3p a share at current rates, from foreign exchange on top of that. So I think that growth is not an issue now.

I tried to be at pains to be clear in the beginning of my presentation, you know we care massively about our customer franchise; we are putting in massive efforts to make our customers happy with us, happier with us, to improve our customer capabilities. That should increasingly show through, both in terms of retention, as well as selectively in terms of new business. But I think it will be a lagging indicator, it takes time to improve capabilities, it takes time for those capabilities to be noticed by your customers, it takes time for that to be noticed in new business. What we are not doing is what insurers traditionally do if they're worried about the top line is cut prices or take stupid underwriting risks. This is a dumb market to do that in.

So we see spots all around our business where we've done something and as a consequence of doing something superior on capabilities we're getting a better result in terms of either better retention or better new business. So telematics in the UK, we're gaining share even in the telematics market. There are one or two product areas we've dropped, brand new pricing models in Canada, new business hit rates have doubled in the last three months in those areas. We put in retention desks for example in Personal lines in Denmark, which we didn't have before, retention is coming up.

So right across the business we can see that when we change a capability it changes a customer outcome. But the only growth that we are interested in is growth that comes from capability improvements, not that comes from damaging shareholders.

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Thomas Seidl, Bernstein

I mean with the FX point, I think you mainly focus on probably one of the few positives on Brexit, so what about the negatives, growth and return on investments, one third of the assets in the UK, how does that balance off with the FX impact?

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Stephen Hester, Chief Executive Officer

So the investment - our new investment guidance combines both, so the effect of lower interest rates is in our new investment guidance and the effect of foreign exchange on our investment portfolios is in our new investment guidance. And so as you can see you can model that through. We do believe that the net of all of it is a significant increase in our earnings; you know the net of interest rates and foreign exchange going forward.

The structural impacts, too early to be sure, but because our principal European operations have separately regulated and incorporated subsidiaries in Ireland and in Scandinavia we don't anticipate any, if you like structural issues to us from us from Brexit, to the extent that UK growth goes down, might there be some impact on the general level of UK premiums? There might, but it seems to us that that's going to be a very slow impactor of what we would otherwise do, since we weren't ever relying on economic growth as our engine, in the UK in any event.

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Thomas Seidl, Bernstein

A final question on the pension deficit, I mean we have seen the dramatic fall of SWAP rates, how does it impact the economic, rather than the accounting value of your pension deficit?

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Stephen Hester, Chief Executive Officer



I suppose you'd have to try and figure out - I'd have to understand exactly what you meant on the economic benefit - on the economic basis of our pensions. But you know I think our picture will be the same, we have an accounting surplus that got a bit stronger, we have funding deficit and that's not economic either, and then there are fair value issues - you've fair value, buyouts and we haven't asked for a buyout price, so I don't know what the buyout price is, but my guess is that the buyout is certainly not better and probably worse, but to be honest I have no idea what it is.

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Thomas Seidl, Bernstein

Okay, thanks.

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Andy Hughes, Macquarie

Hi, I guess I also have a question on growth I'm afraid, sorry to be boring, but obviously on slide 26 you're showing the kind of volume for each of the markets being pretty negative, is that distorted by the pruning actions that you've been taking and is the underlying volume rate not as a bad as this, or does this exclude this?

And I guess looking forward to next year, I'm kind of struggling a bit to see where the growth comes from, because obviously in Scandinavia the peers say, if you grow in Scandinavia you have new business strain, which means you're going to sacrifice some of your underwriting to grow. It sounds like it's more a profitability over growth focus?

In the pruning bits, I guess you've mentioned something about Commercial Property appetite in Canada, is it Commercial Property or is it property as in Household and Commercial Property? And what exactly do you mean there?

And I guess the third question on retention, you touched on Danish retention, but the retention slides we had at the full year showing the numbers by market aren't in here, has that deteriorated as a result of the pruning, or is it generally in line with where it was at the full year? Thank you.

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Stephen Hester, Chief Executive Officer

I'll ask Scott on the last one because I don't know that answer. I think a significant amount of the premium numbers are still impacted by working through earned premium and premium's past portfolio decisions, a good example being Broker Motor in the UK, which was a decision we announced a year ago, but this is the year where you see the premiums not being written. And there are other examples where you get out of a scheme but you have to give up to 12 months notice and then you have another 12 months while those premiums roll off. So there's still a chunk of portfolio change that's going through the numbers.

But underneath that there continues to be some growth, so for example Sweden grew at 2.5% in the first half. That was offset by Denmark doing less well, but I'm not worried because we are so far off the pace in our margins in Denmark in terms of costs in particular that we are putting Denmark through a very radical transformation, which in the short run is going to cost us top line and in the long run will make us have a terrific Danish business for shareholders as well as for customers.

In Canada it mainly is commercial property, there were some areas we were taking more large losses then we should have done and so we changed our underwriting appetite, Residential has been fine - actually good. Scott I don't know if you have anything to add ?

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Scott Egan, Chief Financial Officer



Yeah, I mean no is the answer in terms of not disclosing it, we'll probably do it at full year, I think there's a danger if you keep sort of dripping retention stuff our every quarter or every half year you can get potentially distorting trends. So there's no significant news to report in Denmark.

I think Stephen has made the point, which is there's a lot of change going on in the business and we're confident that what we're doing are the right things. You know Denmark itself is subject to the same investment in terms of capability aimed at improving the customer experience, aimed at improving retention. And I think there was a little vignette that Stephen showed that actually you could see that there were some comments in there about Denmark in terms of its broker ratings.

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Stephen Hester, Chief Executive Officer

We're not - I should just clarify, you mentioned something on new business strain. We're not at all worried about new business strain, if business is - we think is life time profitable we're perfectly happy to write it with a new business strain. What we're not happy to write is something with a new business strain that is always a strain.

And so as an example our Swedish attritional loss ratio doesn't look at good in terms of year-on-year improvement as it really is, because we've deliberately decided to do some more new business in Motor which we think is a very profitable life time for us and also make some policy changes to defend our very big market share in PA. We think those are very accretive to us, but in the near term they cost us money. But there are some other areas which cost us money in the near term and in the long term and that's the stuff that we're trying not to do.

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Oliver Steel, Deutsche Bank

Three questions, first of all on solvency and given the most of the market move in solvency was driven by FX I think you said and implicitly that's just a mix issue presumably, how do you perceive the quality of your 158? And are you still happy with that 130 to 160 range as being the sort of benchmark we should measure that against?

Secondly, I know this is a horrible over simplification, but on the basis you've given us average price increases in each market and you've said they were ahead of claims inflation, can you give us an average claims inflation in each market?

And then the third question is I think in one of the slides you talked about some e-initiative that was going to cut 80% off the acquisition costs at Codan, which sounds a huge figure. I think that's mentioned on the notes on one of your slides, so I just wanted to clarify that.

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Stephen Hester, Chief Executive Officer

Okay, well the two I don't know I'm going to ask Scott to do, which is the second two. On capital quality, we're very happy with the capital quality in terms of the measurement of risk, even happier post the pension derisking we did in the first half. And so the area that we think we can improve is the mix of equity versus sub-debt and I include in the word sub-debt, you know the tier 1 instruments because it's much the same stuff. And as we said we want to continue to have a bigger equity element in our total mix, which is why capital surplus above our normal dividend - policy and if we release money from legacy would be applied first there.

.....

Scott Egan, Chief Financial Officer



Yes, so on the claims inflation, look I don't have the blended here, but let me just give you a flavour. In Scandinavia in Personal Lines, it would be around 1%, the same in Commercial. In Canada Personal Lines around sort of 2 to 4% and in Commercial Lines, again not much different. And in the UK Personal Lines, again between sort of 3 to 4% blended and in Commercial Lines probably around sort of 2 to 4%. But that can be misleading depending on the lines of business and therefore I do genuinely caution slightly the use of averages in sort of arriving at very specifics.

But look we're happy that in aggregate across our regions we're remaining to be price disciplined in line with claims inflation and keeping the focus on the overall profitability.

And you'll need to help me with your last one, could you just repeat it again?

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Oliver Steel, Deutsche Bank

Slide 76, you say eBoks digital mailbox is going live in Codan in October will eliminate 80% distribution costs?

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Stephen Hester, Chief Executive Officer

Distribution in that context means postage, instead of sending you in the mail your stuff you logon and it costs us nothing.

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James Shuck, UBS

Thanks, I have three questions please. Firstly, on the UK Personal Lines, so I'd just like an update on your strategy here. If I look at Household, could you give me an indication of what percentage of Household Personal comes from MORE THAN for the time being and what you're intending to do to kind of grow through the price comparison channel in particularly?

And Personal Motor, you've been shrinking that book, you're quite small in Personal Motor, I'd just like an update on that strategy, it's loss making still for now.

And in Pets, you're one of the few companies that seems to lose money in Pet insurance, it seems to be a complete cash cow, excuse the pun, for many others?

My second question is on Scandinavia. So historically nearly all of the underwriting profit has come from the Sickness and Accident product in Sweden, which has operated with a pretty stable combined ratio of about 70%. That combined ratio in recent times has been over 100% at least in the segment as you disclose it there. So if you could just tell a little bit about what's going on in that segment that would be helpful?

And then finally - this is just a more conceptual point, but can you just help me understand why a 5% margin over actuarial best estimate only translates into a 1% guidance prior year reserve releases?

.....

Stephen Hester, Chief Executive Officer

Sure, in a second I'll ask Steve Lewis to answer the UK Personal Lines question since he's here. In terms of your other two, on Scandinavia, our most profitable area, our most profitable product line is Sickness and Accident. I would also say thought that there are lots of other Scandinavian areas that make good money, just not quite as much, for example the Motor market in Sweden is very, very profitable, our Commercial Lines in Sweden having not been profitable for years is now back in good



profit. Normally speaking a number of lines in Denmark are as well. But the most, you're right, has been Sickness and Accident, in part because of our unique position there.

Last year we had a significant reserve strengthening, so the current year was very strong, but we strengthened reserves. This year the current year is also very strong, we've also done some reserve strengthening, albeit, you know, on a net basis Scandinavia last year was negative in terms of PYD and this year is slightly positive. But you know it continues to be one of our most unique and strongest areas, new business trends, market shares, everything terrific. But the nature of any long tail line is you can get reserve volatility, sometimes good and sometimes bad. But there is no issue there at all.

In terms of your question on margin, I think two are different. The reserve margin that we disclose is what I'll call the cushion, which strictly speaking your actuaries say you don't need, i.e. the cushion above best estimate. And I think we're the only insurance company that discloses that, everyone else uses it to smooth profits and by disclosing it we can't smooth profits unless you know about it, which I think is a good management discipline.

The advent of prior year releases, for some insurance companies is because they're digging into margin, but for others it's because actuarial best estimate is, although conceptually is set at best estimate is often arrived at in a slightly conservative way. And so on balance and on average, the actuaries, the actual claims experienced tends to be better than where the actuaries - and that's where you get your reserve release from if you're not dipping into margin. And that's where our planning assumption is 1%, but as you can see when you look into our individual regions, it can bubble all over the place, when you aggregate lots of things it becomes a bit more stable, but it's by definition an unpredictable series.

Steve Lewis, CEO - UK and Western Europe

So in terms of Personal Lines, so Home, Motor, Pet, so if we just walk through those. In terms of Personal Lines Home, it's around about 40% in terms of MORE TH>N, 60% is Affinity Retail, and it goes a little bit to the comment we made earlier in terms of only growing when you've got the capability to do so.

So if you look at our MORE TH>N portfolio, we've broadly held the line flat year-over-year. What we're doing currently is we are building a complete front end digital architecture that we're looking to bring to market next year. The first delivery is actually MORE TH>N Motor, in Q1. Q2 is actually for Home in Nationwide. And following that will be for our MORE TH>N Home business. And that's about bringing the right capabilities ultimately to compete. And at this moment it's a defend position on our Home book until we've got those capabilities to take the portfolio forward. So that's Home.

In the context of Motor loss ratio, well we've still got some strain there in the context of exiting Broker Motor last year. It's out of the portfolio in terms of top line, but you still get some strain in terms of expense and loss, we're actually responding to. Again, I've given you part of the answer in the fact that one we are going to be deploying new capabilities next year, Q1, in terms of supporting our MORE TH>N Motor proposition. And that is about digital capability, it is about price optimisation capability and it is about bringing our fraud capabilities up to the level to allow us to grow the Motor portfolio on a go forward basis.

Having said that, Stephen touched on earlier telematics, we've got a data led capability in telematics; we've grown that over the last two years. We have the capability to compete. And this year we've seen that grow by 60% and we're heading towards 10% market share of the telematics space by the end of this year. And that's performing well for us.



And in terms of the overall loss position of Motor, we have seen our Motor combined ratio for MORE TH>N improve significantly, by around about 20 points, year over year. It's still not where we need it to be, but we do see the path forward to improving the contribution from Motor.

And then finally in Pet, I'm not sure I'd quite use cash cow, actually we had a few prior year issues in terms of recognition. If you look at the current accident year it is marginally profitable at 99.5%. Having said that I would also agree that it should be delivering a greater contribution for us. We've got a significant amount of focus looking at data analytics, we've recently heard about how we've intervened in the vet space with a referral network. And that is all about starting to use our scale, and we have significant scale, to both deploy better insight and indemnity management to bring the actual contribution from Pet to where it needs to be.

So I think we've got a really good clear plan as to how we're going to take our Personal Lines business forward.

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Stephen Hester, Chief Executive Officer

Thank you very much Steve.

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Andrew Crean, Autonomous Research

Morning, three questions if I can. Firstly, on investment income, what is the reinvestment rate now? And what would your investment income forecast be for '17/'18, if you didn't use forward rates, but used the continuation at the current investment rate?

Secondly, you made a comment about the improvement in the attritional loss ratios in the second half not being as good as the first. I wasn't quite sure what you meant. I know last year, I think it was 87% in the first half and then 84% in the second and then it was 83%ish, and this is in combined terms, in the first half of this year. Are you talking about the improvement second half-on-second half, or second half on the first half of this year, which will be less of an improvement?

And then the third question, I notice the amortisation of the pull-to-par has now been moved from three to four years, being pedantic about this, you basically said you'd look at specials once you'd finished restructuring and once the Pull to Par had completed. Would that mean that specials get pushed out a further year?

.....

Stephen Hester, Chief Executive Officer

Thanks Andrew, in a second I'll ask Scott to answer the Investment income. On the pull-to-par it doesn't mean that, I think the fact that it's more and longer is more than offset by the increased profitability and capital generation that we've got and that we expect to have, so I'm not worried about that.

In terms of what we mean in terms of the walk of I think both, I think the improvement over the second half last year and the improvement over the first half of this year will be less than the year-on-year improvement that we're producing first half, just because of different things that are happening in the lines and different periods of what we're anticipating to actuarial recognition. But we believe that the smoothed path is continuing to improve and we see now reason why, in terms of if large losses and weather are neutralised why the second half wouldn't be stronger than the first half overall in underwriting terms, as it normally is.

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Scott Egan, Chief Financial Officer



On investment income, so Andrew just two things, so the blended rate - reinvestment rate was 1.5, I think the discrete in Q1 was 1.6 and discrete in 1.3, that was primarily, as I said, driven by the sort of investments that were coming up for reinvestment, rather than an underlying rate point.

Regarding if you didn't use forwards what the sensitivity would be, I don't know we haven't done that, that's not what we use, we basically use ...

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Stephen Hester, Chief Executive Officer

Actually I thought it was in one of the notes isn't it - isn't it in the note?

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Scott Egan, Chief Financial Officer

It's small it's kind of £10m, but we use forwards is our kind of market ...

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Stephen Hester, Chief Executive Officer

I think we've got a note - we don't use forwards.

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Scott Egan, Chief Financial Officer

It's a sensitivity; it's negligible £10m.

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Olivia Brindle, Bank of America

Hi, three questions. Firstly, on the better operational progress on both costs and loss ratio, how much of this is just timing and you putting through certain things more quickly than you thought and how much of it is genuinely sort of new opportunities that you've found as you've gone through the process and new areas where you think you do better, i.e. effectively incremental improvements compared to when you first started?

Secondly, on the large losses, I mean we've had quite a few of those, but obviously you've also got your aggregate cover and that kicks in I think it's £150m of eligible losses for the year. Is there any sense of where we are on the £150m now? If you could update on that?

And then finally just on some of the EPS comments, at the full year you gave us some ballpark numbers in the 40s and the 50s for some of the outer years, how would you be urging us to think about that now especially with the FX support that you mentioned?

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Stephen Hester, Chief Executive Officer

I suppose the progress in attritional loss ratios, as you say has been better than ever we planned. And at the moment I look at that as derisking the progress that we were wanting to make to best in class, particularly in the light of an external environment which for choice is probably more hostile - you know post Brexit and so on and so forth. So at the moment I don't think it would lead us to increase our best in class ambition targets for combine ratio if you like, but I think it takes some of the risk out of them because we've gone further faster towards those levels.

In terms of large losses, well mainly actually it was the weather events, there was less large losses - but the large losses are slightly above normal but it was mainly the two weather events we talked about, the forest fires and the floods. As a result of all of those we are well over half way through our



GVC allowance for the year, which gives us substantial downside protection for the second half, which was another reason why I was being cheerful about the second half having a good chance of being you know nicely stronger than the first half for this year.

And in terms of EPS, as I say I wouldn't change our ambitions, so our ambitions in terms of beating those combined and not hitting them, beating, the combined ratio remains our ambition, there would be automatically if you think foreign exchange rates will continue where they are now, something like 3p of earnings per share to add to whatever you had before, just on earnings translation. And I think the scepticism discount as to whether we will hit them ought to be a rather smaller discount than it was six months ago.

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Olivia Brindle, Bank of America

Thank you.

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Nadine Van Der Meulen, Morgan Stanley

Can you give some more thought around your plans around the debt retirement in the coming years? So you retired sort of expensive sub-debt last month, in July next year there's a first call date I believe on a large debt issue, do you have a certain - you mentioned the equity element of your eligible own funds, do you have a certain target percentage for that in mind, or a target leverage ratio? So that's the first question.

The second question, so in terms of Solvency II your pension and UK legacy book are quite a big part of the SCR of the eligible own funds, I think it's over 40% or something, could you give an indication of what the capital releases that you would expect from that in light of what the impact could be on capital generation going forward? Thank you.

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Stephen Hester, Chief Executive Officer

In terms of target capital mix, we don't really have one. I suppose we sort of want to be in the pack of where everyone else is for want of anything more intelligent to say. And at the moment you know we're slightly on the more leveraged end of the pack of where other people are. So broadly we want to bring ourselves in the pack, exactly how far depends on how much money we have to spend in terms of surplus capital over the next 12 months. And obviously we still have some unused deferred tax assets, so there's still the ability to do some more tier 2 without us costing us anything in terms of ratio. So that's the best I can answer on that.

In terms of your other question on SCR, the pension is in the first half numbers, so in other words the pension derisking, I want to say saved us something like £50m, is it Scott something like that?

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Scott Egan, Chief Financial Officer

Yes exactly.

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Stephen Hester, Chief Executive Officer

£50m or so on the SCR and is in the half year numbers because we accomplished that in the first half year. As to what legacy would release, I don't know, because I don't know what price a legacy deal could be done at. So that's hard to know at this juncture.



The patent legacy release will look funny in accounting terms if there is one because the SCR weighting of legacy diversifies away quite a lot when you take account of diversification benefit, but there's a bunch of quite prudent positions on the capital side of how legacy is held. But one way or another I think it would be capital accretive and accounting negative.

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Andy Hughes, Macquarie

Hi, I just want to ask a question about the Personal Accident reserve strengthening in Sweden again. Obviously it looks like it's kind of about £30m this year, compared to probably double that H1 last year. I'm just trying to work out that's actually happening and why is kind of deteriorating, obviously you released a lot of money from this line in the past, is it something to do with the aging of the children's policies as they kind of get into the working population, or is there something else going on that's driving the reserve strengthening there? Thank you.

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Stephen Hester, Chief Executive Officer

It's less than £30m, but it's basically changes in some combination of Swedish social security policy, because we follow Swedish social security rules and when - and what are called societal changes in terms of reportable mental diseases and things like that. It's sitting between those types of issues. I don't believe it's an ongoing issue, I think we've caught it. And it's not an issue that we think we're materially exposed to in the long term. So we're not especially worried about it. But you know it just is the case when you have long tail business, sometimes you're very happy with reserve releases and sometimes you're not. And if you look over the long term this is a great product area and I'm confident it will be going forward.

Any more questions?

Okay, well look again thank you very much for joining us, Rupert is of course available, as indeed are Scott and I if you have follow up questions during the day or in the coming days. Obviously it is for us a pleasing moment with our results today, not just because the headlines are good, but because the quality that sits beneath the headlines are good. You know the 13% beat to consensus because of that earnings quality I think is a very sustainable beat looking forward and we'll have tailwinds in addition from foreign exchange.

But we're all very conscious that these things don't fall into your lap, it's a hostile external environment, we're going to have to work hard for our gains. But that's exactly what we're doing. Thank you for joining us.

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